

2008 Federal Taxes Changes with a Direct Impact on Utah Taxes

Any change in Federal taxes has an indirect impact on state taxes through the influences on the overall economy and through influences on Utahans' behavior. To the extent possible, these changes get incorporated in the consensus forecasts. Since Title 59 has some direct links with the federal code, we are affected directly by federal tax changes. Since we no longer allow a deduction for federal taxes, however, we are less vulnerable to federal changes than we were when this report was first required. Changes in tax rates or credits are no longer relevant. As outlined below, we are required to suggest options for mitigating the effects of federal tax changes. These options should not be considered as recommendations.

59-1-213 requires an annual report "concerning the impacts of the reliance of this title on the Internal Revenue Code"

We are also to report

- (3) statutory or administrative options to:
 - (a) implement the effects on this title of a modification described in Subsection (1); or
 - (b) change this title to prevent this title from implementing a modification described in Subsection (1).

In summary, we will be reporting recent changes that will implicitly influence our tax provisions and measures that can be taken to mitigate these effects.

There have been two major federal enactments this year with such a possible impact: the economic stimulus measures passed this spring, and the recently so called bail out bill.

The Economic Stimulus Act of 2008 is the only major federal legislation that will have a significant impact on Utah. The act contained federal provisions which allowed 50% depreciation for investments in 2008. This works through both the individual and corporate tax channels. Normally we would expect it to have an impact on both fiscal 2008 and fiscal 2009 revenues. The 2008 impact would result in reduced estimated payments. So far we have not seen any evidence from that. We expect reduced fiscal 2009 payments of \$50 million. This is a very rough estimate and is the center of a possible range of outcomes. Any reduced payments will be made up in the following years as depreciation will be lower.

The law also raised the limits on small investments that can be written off (expensed) immediately.

If the Utah Legislature wants to prevent this temporary loss it can delink from the federal provisions, as many of the states have. It is probably a bit late for that

now but it could prevent future effects since this type of provision seems to be getting more popular.

The Emergency Economic Stabilization Act of 2008 is mainly a bill that allows the Treasury to assist troubled financial institutions. It does, however, contain some provisions that influence executive compensation in a way that could potentially reduce revenue. This is all very unclear yet as it is dependant on which institutions seek aid. We do not expect a major impact and see no simple way to reduce the impact. We might even argue that it is not a direct impact from our linkage to the IRS code.

The act included many small tax provisions for energy sectors as well as extenders that had been on the table for some time. We see nothing significant in the renewed provisions and the others are very detailed and sector specific.

1. The alternative minimum tax was changed to prevent a lot of middle-income taxpayers from having to pay it. This has been done regularly for the past several years and was expected. This has no effect on state revenues since we no longer deduct federal taxes. It is included here mainly as an FYI.
2. The research tax credit was also extended as expected. This also has no impact on state revenues, especially for the current year. It is included here mainly as an FYI.
3. The deduction for student loan interest was extended. It will cost the state around \$2million. The Legislature could add back the federal adjustment to AGI to avoid the loss.
4. The deduction for educator expense was extended. It will cost the state around \$227 thousand. The Legislature could add back the federal adjustment to AGI to avoid the loss.
5. The optional itemized deduction for sales taxes in the place of income taxes was extended. The revenue impact on this is very ambiguous since the taxpayer could use the deduction for income taxes instead, but would have to do that for federal taxes as well. One way we could handle that would be to require the taxpayer to add back the sales taxes deducted as they currently do for income taxes. If that were done it could bring in \$5 million.

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